

The commercial environment of schering-plough pharmaceutical company

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The U. S. drug market commercial environment where Schering-Plough is headquartered and operating from has a big number of companies that are engaged in pharmaceutical business and millions of people depend on the drugs these companies bring into the market, a process that has a very high price tag and a time p of more than a decade, coupled with a lukewarm success rate since very few of the drugs that had been under research would find their way into the market. The number of diseases and the number of drugs that are coming into existence to tackle them are big in number.

[1] The amount of money spent on prescription drugs on 2002 was \$160 billion revealing what kind of a huge market it is. To make things worse the price of prescription drugs had been spiralling at an alarming rate forcing both public and private purchasers to demand some kind of price controlling measures. [2] But when seen from the general healthcare spending perspective who take the most portion of the expenditures are hospitals and physician services that cost 31% and 22% of the total expenditure respectively, while prescriptions drugs share is only 11% of the total health spending.

But when taking into consideration the kind of growth that took place in the year 2002 the prescription drug sector grew 15. 3% compared to 9. 5% for hospitals and 7. 7% for physicians, which shows there is something behind the spiralling cost of drugs that is forcing everyone to go up in arms to bring it into some kind of control, because this trend is believed to continue for the next ten years.

Everyone had scrambled to find out the reason and some factors that are suspected to feed into the spiralling cost were the increasing number of senior citizens, the high number of new drug introductions into the market place with an expensive price tag, how the manufacturers are marketing their products or the high awareness level of the of the consumers might also have something to do with the cost. Even if there was an assumption that the coming into the picture of generic drugs and the introduction of fewer drugs were expected to dampen the price in reality, the U. S.

prescription drugs increased by 11. 5% to \$216. 4 billion for the year 2003 defying any speculation. What can be assessed from such a performance is the U. S. prescription drug industry is highly profitable even if the accounting method used might not reveal the exact cost and revenue relationship simply because the industry is allowed to add any cost it incurs in R&D, which would make things complicated since close 70-80% of the cost of the industry is R&D. [3] A comparison among prescription drug manufacturers had been made in the year 2002 and the top ten ranked companies had 59.

6% of the market share, which shows there are others too that have a share. That will bring us to the company we are researching Schering-Plough that was not among the top drug sellers, but it was 17th in rank and had a 1. 4% market share revealing that it is a smaller player. But that does not mean its total sales of prescription drugs and others for the particular year was not close to some of the top performers, which shows it had other product lines that enables it to generate income. As an example the Schering-Plough net sales for the year 2002 was \$10.

18 billion whereas the tenth top performer Lilly had \$7.5 billion gross sales on subscription drug as well as generic drugs, which is 10% of total U. S. prescription drug. Just to look at the particular drugs that performed well in 2003 cholesterol-lowering drugs had led the way in sales with \$13.9 billion. One particular drug Liptor with \$6.8 billion had been the best drug. Cholesterol lowering drug Zocor sold for \$4.4 billion even if Schering-Plough had its own such drug under the name of Zeita, but it was not its best performing drug.

Heartburn Prevacid fetched \$4 billion, anaemia drugs \$3.3 billion, Zyprexa \$3.2 billion, thyroid drugs \$40.8 million, blood pressure drug Norvasc \$36.4 million, Zoloft \$32.7 million, revealing that none of Schering-Plough drugs were among the top performers where some of them were selling in the lower millions, and its only best selling drug was Remicade that is used for inflammatory disease treatment, but it did not approach the top sellers threshold. The amount for R&D for the year 2002 was \$32 billion by those known as PhRMA member companies and the amount is higher than any industry.

There are various phases, tests, and approval process by the FDA every drug has to go through and the time it takes for a drug to make it to the market place could be between 12 to 15 years at a cost of \$403-\$500 million, where some say the final tally could approach \$897 million, which could be inflated according to some, because there are advantages the drug makers get from the government in a form of tax break, intellectual property protection, and direct federal support.

However, through all this, the number of new drugs that get the FDA approval is low, where in 2002 there were only 17 drugs approved and in 2003 the figure had made it to 21. [4] To make up for the slow drug introduction in the market place companies try to wring more profit from existing drugs and the main vehicle they use to do that is marketing, which had cost them \$19 billion for 2002. More than 80% of the advertising spending is professional spending where companies will promote their product in hospitals, physician offices in a form of educating material and free samples.

The promotion cost to physicians alone comes to \$5 billion. The coming of age of the Internet is also changing the arrangement where most of the interaction takes place electronically and that is expected to affect the cost. Generic drugs also play a different role and they made 51% of subscription drugs for 2003, and the process of their coming into the market place is much cheaper than brand name products simply because they are judged by bioequivalence and they have two advantages where they cost less to bring to market when compared with developing a new drug and when the average prescription brand name drug is \$84.

21 the generic drug is \$30. 56. The entry of generic drugs into the market is always thwarted by patent extension, restoration, and the exclusive period that is given for the manufacturers through the patent which could be up to 20 years, although since it is applied for at the early stage of the development it could end up being less. [5] The buying section of drugs includes the patients that could pay a portion of the cost out of pocket, the

hospitals, the health care providers, and the insurers that could cover all or part of the drug cost, and have influential role to play in influencing the price of drugs.

In the year 2000 individual patients footed only 30% of the drug cost and insurance companies in 2002 paid up to \$77.6 billion for drugs. When it comes to retailers there are 35,000 chain drug stores and 20,000 independent pharmacies in the U. S. Nevertheless, the latest trend is almost 60% of the dispensing of the drugs are through chain drug stores, foodstores, and mass merchandisers such as Wal-Mart. Mail order has taken at least 13.2% of the market share in 2003.

The Internet is also another outlet where mostly lifestyle drugs could be dispensed through, while drug stores also have websites through which they receive prescription as well as sell drugs, although there had been a lot of scandal involving counterfeit and contaminated drugs. The other key players are wholesalers that will buy in bulk from manufactures by offering them a cost advantage and selling it to retailers with a discount and they make money from both of them; from manufactures in a form of a rebate and they offer discounts, whereas retailers pay fee for distributing the drugs.

Their fee is modest and there are only three major wholesale distributors in the U. S. that have close to a monopoly control in the process. [6] Through all this commercial environmental influence Schering-Plough had a net sales of \$10 billion for 2006 and offers numerous products covering Allergy & Respiratory, Animal Health, Anti-Infectives, Arthritis & Immunology, Cancer

Therapies, Cholesterol-lowering/cardiovascular, Erectile Dysfunction, Foot Care, Hepatitis, Skin Disorders & Sun Care, and others had a sizeable market share in the U. S.

as well as globally since it has presence and branch offices in almost all major cities in the world. The company has filed regulatory application in the EU, Japan and China among other countries, which reveals it is a global player with a good amount of success rate since it recently got permission to sell Pegintron one of its drugs for treating hepatitis in China. [7] The company claims its main goal is to create a good relationship and trust with doctors, patients and customers by providing them innovative, scientific drugs that will improve health and well being around the world.

The company states on its site that in order to deliver on what it is promising it is aware that hard work, sharp execution, integrity and transparency will have to be in place in order to show result. Especially the transparency aspect of the drug manufacturers is lagging behind in many areas and if the company really delivers in its promise, it could avail it a good advantage. The new company Schering-Plough that came into existence after merging with Plough that was more or less in a similar business is claiming to be in the process of reinventing itself and its main focus is on people, products and processes.

[8] The three areas the company is focusing on are prescription pharmaceutical drugs sector that is responsible in researching, developing, manufacturing and bringing to the market drugs that are used by human

patients, while the health care sector is responsible for manufacturing over-the-counter foot care and sun care products. The animal health sector also goes through the process of researching, manufacturing and marketing drugs that are used for animal treatment and it has a good presence in that market too.

It also has generic drugs where one example to mention is Claritin the known popular allergy drug whose patent has expired but it has made it available as a generic drug. It is also beneficiary like any other drug manufacturers from what the tax payers are availing, because systems such as Medicare, for example, are solely financed from tax revenue and they are paying for some of the drugs it is selling.

Consequently, the company might have enough drugs from the three sectors to take it forward for several years and since it has a big number of products at phase II and III its future prospect seems to be intact and its global presence gives it more lever where with effective marketing, both the existing drugs as well as new introductions will get good market share. It has a good working relationship with its staff and is an award winner as one of the best places to work for mothers with children, which means its chance of attracting highly qualified staff is there.

Schering-Plough is known as a company that gets rid of ailments such as running noses, sunburn for tanners or for those who stay in the sun for a long period, also its fight against fungal feet is also gets the limelight. It is a major player in three sectors unlike its competitors and makes prescription

and over the counter drugs, animal health products, and personal care products.

Its allergy medications Claritin and Nasonex are very popular and household products and it has a good role to play in anti-infective such as hepatitis and has a number of drugs both on the market and under R&D. Its erectile dysfunction pill Levitra that it co-promoted with Merck is cheaper in price and could be another choice for those who prefer to buy cheaper drugs and could compete with the most popular erectile dysfunction drug such as Viagra, which is a bit expensive. Consequently, with its OTC offerings that include Afrin nasal sprays, Dr.

Scholl's foot care products, and sun care lines such as Coppertone and Bain de Soleil the company is on solid grounds to grow as well as to make profit for its stakeholders. Its cholesterol-lowering drugs Zetia and Vytorin, could eventually become very popular enabling the company to put more products on the market that are sure income generators. Moreover, its recent agreement to acquire Akzo Nobel's Organon unit in 2007 will improve its chance and it could eventually improve its rank as well as its market share.

[9] If we go into PEST and SWOT analysis government and medicine are inseparable in most cases since the government is one of the main buyers of the medical products the drug companies are coming up. The government's role extends much farther than buying the products, it is also involved in a big scale in the R&D stage of many of the products to the point the public

R&D sector is always outdoing the private sector in bringing drugs into the market revealing that the two are inseparable.

Governments also come up with different laws in order to protect the citizens to which the drug manufactures have to adhere to and from time to time it comes with incentives that could be in a form of tax break or a grant and the like, which shows any drug company will have to work in compliance and hand in hand with the government. When it comes to doing business globally taking into consideration what kind of political stability is there in a given county is important, especially if any kind of investing is contemplated, as well as the level of government intervention in the structure of the business also will have to be looked at.

In the year 2004 Schering-Plough had a brush with the government that cost it more than \$500 million that was instigated because of one of its products an alubterol inhaler where the government was able to detect infringement on public trust that necessitated the company's being inspected by a third party inspector. The pharmaceutical market estimated to be around \$500 billion in the year 2004 has a stock value growth estimated to be 10.5% for the year 2003-2010 whereas the Health Care industry has a growth of 12.5%.

It is only the information technology sector that has an expected growth rate of 12.6%, which means drug companies have a big role to play in the nation's, as well as global economy. Looking at what Schering-Plough generated for the year 2006 at \$10 billion and as the 17th player in the

industry it has a significant role to play, and it also has enough products in the pipeline to enable it to keep and improve that position as some of its products such Zetia, Vytorin, and Claritin are popular and have a good market share.

At the same time since the company has a global presence especially in the EU and Japan that are the largest among nine geographic markets that account for more than 80% of the global sales, its chance of growing its market shares is there as long as the existing popular products continue to hold their existing popularity and if one of its existing or a new product gains more ground.

When it comes to social issues the company recognises that both wealthy as well as developing nations need drugs in order to enable their citizens fend off disease, live better life and live longer, which means the importance of the drug manufacturing companies is not going to waiver. At the same time the company recognises, at least in the U. S.

what the retiring of the baby boomers soon would mean for its business because they are expected to live much longer and as they are ageing their need for drugs to help them stay healthy and to live longer would always increase showing the important role the drug industry could continue to play in various social classes starting from children to grown ups. In addition, there are diseases that are not contained or conquered yet such as AIDS that are still intimidating challenges and will bring society and the industry closer while searching solutions.

Epidemics such as SARS and bird flu are also challenges that come and go that could be turned into economic advantages while they keep both society and the drug industry in close interaction. Other area that will keep the interaction of society and the drug industry is older diseases that had been under control that would start developing resistance to certain drugs such as gonorrhoea that had been in the news recently and this also creates another reason for interacting, as well as a challenge that could be converted into economic advantage for the drug manufacturers such as Schering-Plough.

When it comes to technology anyone of the drug manufacturers including Schering-Plough will have to adapt using the latest technology so that they will not fall behind in whatever they are bringing into the market and technological development could also shorten the amount of time it takes to bring a drug into the market which could stretch up to 15 years and could also bring the cost involved to discover, research and develop a particular drug and bring it to the market that is estimated to be around \$500 million.

Schering-Plough is also admitting that it is in the look out for the latest technology in its industry and does not hesitate to implement any new technology that will help it tackle its working process.. Looking at the SWOT of the company reveals that the company is highly focused on its R&D and as it had been witnessed it has a few popular drugs on the market and it is heavily competing with others either to gain market share or to manufacture or to come up with popular products.

The fact that it has a good number of drugs on its phase II and III level means even if the success rate is lukewarm in that area, where three out of ten products only might make it to the market, and the number of years that it will take is at around 15 years; since it is a standard in the industry its chance of competing with others is promising. In addition, it is still acquiring new companies as it did recently when it had announced its plan to acquire Organon Bioscience.

And among its strengths are the fact that it is a diversified company that serves three different sectors, that will avail it three strong sectors with opportunities to excel in all them, which would give it an edge over the others that could be focused and heavily invested only on one sector. Which means its R&D covers a much wider sector availing it wider advantages. The fact that it has presence in more than 120 countries means its products are available for a large number of users and consumers.

Its patents for most of its products have not expired yet even if one of its popular drugs, Claritin, had expired and it had replaced it with a generic drug, which would mean those who had seen good results in it will continue to use it, keeping a good portion of its market share in its own hand. Its weakness might originate from without rather than from within and as long as it is other companies that are coming up with innovative products it will continue to lag behind, which would mean it should attract top-notch workers in the field and whether through hard work or fluke it should come up with winning products.

The fact that it has three major sectors might make it difficult for it to excel in one sector a point that has merit and a demerit. If there are threats the competition for market share and for coming up with the winning products is not letting up and as the 17th player in the U. S. among the drug manufacturers it is going to be an uphill battle for the company both to stay in business, as well as to come up with winning products since the other well performing companies had a better chance of coming up with the right products.

And when that happens its role could be limited only in playing in the generic drug market that does not have an equivalent revenue as brand name products as they have much greater competitors. The other threat might be the access it will have in other emerging markets that are lucrative where it had shown some good success rate when one of its drug was approved in China, yet the lack of more winning products could also make it a lacklustre player in that sector too.

When it comes to opportunities it is not different than any of the drug companies except that since it has three lucrative sectors that are in high demand, as long as it can market the existing products effectively it could increase its market share by either keeping existing market or gaining new ground. It is also joining hands with other companies such Merck which will avail it more opportunities in markets others have gained ground, which means if it also comes with new products it would also bolsters its chance of gaining market shares.

The threats are none than what were touched up on where it has to go forward, it has to come up with new products as much as possible and it will have to market the existing ones aggressively not to lose market share. If it does not succeed in these two areas, not only its making profit but also its existence could be under threat, which means it has to beat the competition.

As well it has also to adhere to the laws and rules of the nation since the drug industry is among the highly regulated industries in the country any deliberate deviation could be costly, as mistakes could easily be identified and be treated as such. [10] Other than that if there areas it has to focus on positioning itself better it is that it has some way to go to gain a better market share even if its current market share is not bad.

Yet, it might have to restructure its work environment to avoid waste and inefficiencies so that it can strengthen its R&D effort to encounter the delay created in moving the products in the pipeline and bring them into the market. As far as product diversity is concerned the company has three sectors to deal with, that will give it advantage over its competitors while at the same time it could prevent it from excelling in one given sector because of being spread thin, the only problem that it might have to overcome, and which is within its capacity.

Other than that its allergy drugs Claritin and Clarinex are top performing drugs and Claritin is made available as a generic drug after its patent expired. It has also another popular drug Zetia anti cholesterol drug that is selling well and competing with other brand name drugs. Dr. Scholl, for

example, has a very wide acceptance and market in the foot care sector, which is among products that are generating money for the company. Coppertone is also another popular skin care line of product that is competing well with similar products.

Its recent purchase of Netherlands based Akzo Nobel will also enable it to compete in the market of women's health product, while at the same time it will enable it to expand its animal health business by using Intervet, which is a subsidiary of Akzo, bolstering its presence in the particular market in addition to what it is doing at the Coopers Animal Health where it has introduced well performing drugs in the sector such Zubrin and Mometamax among others. This is in addition to subscription drugs such as Levitra an erectile-dysfunction drug that is a tough competitor to the more popular and highly used drug Viagra, which a bit pricey.

With all this highly competitive products the geographic area it covers encompasses almost all continents and it has a market presence in 120 countries, which will give it a very powerful lever over its competitors simply because some of its products could have demand since they are over the counter products that do not need governmental approval. The complication and the requirement, as well as the waiting period and the R&D involved in the animal health area could be less rigid and it will avail it a much wider market globally than the 1.

4% market share it controls in the U. S. Since the distribution channel in the U. S. is controlled by a handful of wholesalers, three major players in fact,

that buy the products from the manufacturers and sell it to retailers, it does not have any problem in that area since there is an arrangement in place to deliver its products to the major wholesalers that will put its products into the hand of the retailers since it is part of their job, revealing that there is nothing that it is lacking from that section.

When it comes to branding it has a big number of brand name products that are available on its site that are already in the market in various forms, although making a product popular will have to do with how it is marketed and especially what kind of remedial outcome the physicians who are writing the prescriptions are observing on their patients.

Therefore, the important achievement is not only the coming up of with a big number of brand name drugs, since each one of them need to get the approval of FDA after they are tested vigorously to be made available in the market, which is a time consuming and an expensive procedure that is translated into making the price of drugs very expensive.

That is one area not only Schering-Plough, even the leading drug manufacturing companies have to work on and the success rate is attested by the amount of market share they garner, an area Schering-Plough is falling behind, because the top performer Pfizer has a market share of 11% in the U. S. compared to 1. 4% Schering-Plough is enjoying and it sales was \$29 billion for the year 2002.

The pricing effect is determined in most cases by demand and supply and since consumers are responsible only for the 30% of overall buying decision

making that area is sensitive and complicated, because in the first place drug companies are forced to charge a high price because of what they incur in R&D and to cover their cost. Secondly since it is the physicians that will decide which drugs should be used often, that could be dependant on the remedial capability of the drugs, as well as other factors that are becoming controversial lately, since drug companies pay an unclosed sum to physicians for prescribing their products.

A company's pricing system when it comes into the prescription drugs will have to look at many things other than making it cheaper than other drugs, because unless it is subscribed by the physicians consumers do not buy it for the most part, and if they buy it is only the 30% that might have to cover some portion of their prescription drug bill that might choose to go for the cheaper drugs and that by itself requires educating the buying consumer, which is making the pricing of drugs a very complex issue.

This shows many considerations will have to go into the pricing decision since competing based on the price alone is not possible, which Schering-Plough must be aware of. [11]

When it comes to technology it is important for the company because unless it is using the latest technology it will affect its competitiveness as those that are introducing and using the latest technology will have a better chance of finishing ahead; in this case they could bring drugs quickly into the market and their cost for R&D will be less enabling them to charge less for their drugs, making them preferable for those who are footing the bill since there

is worry and concern about the high cost that affects everyone across the board, including those who are covering their own medical insurance which is sizeable in the U.

S. The company is not falling behind in that respect and one good example to cite is Upper Hutt, New Zealand, which is the largest modern plant in the world that produces veterinary vaccines. Which means the company is not falling behind in the technology sector. In its R&D sector it has a good line-up of phase II and III drugs where some of them might not only get approval, they could become one of a kind drug like some of the drugs the company already has on the market.

The company itself states that Schering-Plough Research Institute attracts top-notch scientists and researchers from around the world to its labs in New Jersey, Massachusetts, California, Italy and Switzerland. Its phase II research includes Parkinson's disease, Asthma, hepatitis C and many more that include its work to come up with a new version some of the popular products it has on the market such as Claritin. It has also filed regulatory applications for five products in the EU, U. S. and Japan, which shows it is showing good progress.